

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EA-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 L-03 H-03 DRC-01 /145 W
----- 014667

R 141522Z MAY 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 4780

INFO USMISSION OECD PARIS

LIMITED OFFICIAL USE ROME 6628

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN VIEWS ON OECD DIRECT INVESTMENT EXERCISE

REF: (A) STATE 89852

(B) ROME 6254

1. ON MAY 7, EMBOFF CONVEYED MR. FLANIGAN'S REGRETS AT BEING UNABLE TO TRAVEL TO ROME TO DISCUSS OECD FOREIGN INVESTMENT ISSUES WITH FINANCE MINISTER FIOLETTI. COPY OF AIDE MEMOIRE ON SUBJECT ALSO DELIVERED TO FIOLETTI'S CHEF DE CABINET AND MEETING SCHEDULED ON MAY 16 WITH BUDGET MINISTRY OFFICIAL RESPONSIBLE FOR SUBSTANTIVE ISSUE.

2. ON MAY 14 TREASURY ATTACHE LEFT AIDE MEMOIRE OUTLINING USG POSITION ON OECD INVESTMENT ISSUES PER REFTEL WITH DR. ANTONELLO BIAGIOLI, RESEARCH OFFICE, BANK OF ITALY. BIAGIOLI IS PARTICIPATING IN STUDY IN OECD OF MULTINATIONALS AND FOLLOWS CAPITAL MOVEMENTS IN BOI RESEARCH DIVISION. HE PROMISED TO STUDY AIDE MEMOIRE AND DISCUSS IT WITH DR. ANTONIO FAZIO, HEAD OF RESEARCH
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OFFICE, TO INSURE THAT BOI INPUT INTO ITALIAN POSITION FOR OECD MINISTERIAL WOULD TAKE USG VIEWS

INTO CONSIDERATION.

3. IN RESPONSE TO QUESTION ABOUT RATHER NEGATIVE POSITION OF GOI IN OECD ON NATIONAL TREATMENT QUESTION, BIAGOLI NOTED THAT BOI WAS IN FAVOR OF LIBERAL CAPITAL MOVEMENTS POLICY FOR BALANCE OF PAYMENTS CONSIDERATIONS. HOWEVER, BANK WAS SOMEWHAT CONCERNED ABOUT USE OF FOREIGN INVESTMENTS AS VEHICLE FOR SECURING TAX AND FOREIGN EXCHANGE BENEFITS BY ITALIANS. FOR EXAMPLE, BIAGIOLI CITED CASES WHERE ITALIAN RESIDENTS ILLEGALLY EXPORTED CAPITAL FROM ITALY AND THEN REPATRIATED CAPITAL IN FORM OF "FOREIGN" INVESTMENTS FROM SWITZERLAND. THIS PROVIDED THEM WITH FAVORABLE TAX TREATMENT AND WITH RIGHT TO RE-EXPORT CAPITAL AND EARNINGS (UNDER 1956 FOREIGN INVESTMENT LAW). DR. BIAGIOLI ADMITTED THAT THIS ABUSE OF EXISTING FREEDOM FOR SUCH CAPITAL MOVEMENTS SHOULD NOT UNDERCUT BASIC POLICY. HE THOUGHT THAT HESITANT ITALIAN POSITION IN XCSS MAY BE PARTLY DUE TO POSITIONS OF MINISTRIES OF BUDGET AND OF INDUSTRY. LATTER WAS CONCERNED ABOUT AGREEMENTS BY ITALIAN SUBSIDIARIES OF FOREIGN FIRMS TO RESTRICT RE-EXPORT OF TECHNOLOGY TO THIRD COUNTRY MARKETS. VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENT LAW, BUDGETS, INVESTMENTS, MEETINGS, CAPITAL FLOWS, AIDE MEMOIRE, MINISTERIAL MEETINGS, FOREIGN POLICY POSITION
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME06628
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740118-1018
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740549/aaaabrlv.tel
Line Count: 83
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) STATE 89852
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 24 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 APR 2002 by kelleyw0>; APPROVED <14 FEB 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN VIEWS ON OECD DIRECT INVESTMENT EXERCISE
TAGS: EFIN, IT, (GIOLITTI), (FLANIGAN), (FIOLITTI)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005